



General Assembly

Distr.: General
16 October 1998

Original: English

Fifty-third session

Agenda item 91 (a)

Macroeconomic policy questions: trade and development

Follow-up to agreed conclusions 1997/1 of the Economic and Social Council

Note by the Secretary-General

1. During the high-level segment of its substantive session of 1997, the Economic and Social Council carried out a comprehensive review of the theme "Fostering an enabling environment for development: financial flows, including capital flows, investment and trade". It adopted agreed conclusions 1997/1, which contained a framework for international cooperation and national policies and covered policy issues as they related to policy coherence, marginalization, official development assistance, external debt, volatility and vulnerability, foreign direct investment, and trade and commodities (A/52/3, chap. II, para. 5).

2. At the fifty-second session, the General Assembly adopted resolution 52/182 on international trade and development, and thereby confirmed the relevant sections of the Council agreed conclusions 1997/1. In paragraph 35 of the resolution, the General Assembly requested the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), to report to the Assembly at its fifty-third session on recommendations for effective follow-up to the relevant sections of agreed conclusions 1997/1 of the Economic and Social Council.

3. The present report provides information on action taken by the United Nations in the various areas covered by the agreed conclusions. The structure of the report is based on that of agreed conclusions.

4. Further follow-up to the agreed conclusions should be pursued in the light of the consideration and action under way within the United Nations system in these various areas, including at the current session of the General Assembly, the 1998 annual meetings of the International Monetary Fund (IMF) and the World Bank and in the World Trade Organization (WTO).

Framework for international cooperation and national policies

5. In its agreed conclusions 1997/1, the Economic and Social Council agreed that "international cooperation and partnership have a vital role in creating a favourable climate in which capital flows, investment and trade can flourish". In pursuit of strengthened international cooperation, the General Assembly at its fifty-second session adopted resolution 52/186 on renewal of the dialogue on strengthening international economic cooperation for development through partnership. In the light of that resolution, a high-level dialogue on the theme of the social and economic impact of globalization and interdependence and their policy implications was held by the General Assembly on 17 and 18 September 1998. During the dialogue, it was stressed that for better integration into the world economy, countries needed to adopt sound macroeconomic policies and develop effective institutional and legal frameworks and the necessary physical and human



infrastructures. Institutional constraints normally linked to weak capital markets and inadequate regulations should be addressed in order to strengthen the confidence of investors, both domestic and foreign, and decrease the volatility of financial flows. At the same time, it was acknowledged that national efforts to meet the challenges of globalization, in particular institution-building, were necessary but were not sufficient. Action on a global scale, involving multilateral institutions as well as the world's leading economies was imperative. In particular, the need for a transparent rule-based trading system was stressed, which would provide a level playing field to allow the benefits of globalization to be shared. Although much progress has been made in the area of trade liberalization since the creation of WTO, significant market barriers still exist. Free access to markets is needed, particularly for countries that currently face the threat of marginalization, because these countries are the ones most in need of trade, investment and growth generated by globalization.

Policy issues

6. The Economic and Social Council noted in its agreed conclusions 1997/1 that "with the accelerating integration of the world economy, the interaction between the macroeconomic, structural, trade, financial and development aspects of economic policy-making has increased and is likely to intensify further. In the current economic environment, the question of policy coherence has thus emerged as a critical one for all participants in the global economy". Pursuant to the agreed conclusions, the Council, in April 1998, conducted a special high-level meeting with the Bretton Woods institutions on global financial integration and development and recent issues. During the meeting, many references were made to the need for policy coherence and partnership at all levels, but particularly between the United Nations and the Bretton Woods institutions. As stated in the summary conclusions by the Acting President of the Council, there was a consensus that greater efforts needed to be made to integrate the financial, economic, social and political policies and strategies (E/1998/91, para. 8).

7. In the agreed conclusions 1997/1, the Economic and Social Council agreed that "many developing countries were not able to benefit from the globalization of the world economy over the past decade. Effective measures are called for to assist in their integration into the world economy". In the intergovernmental context of UNCTAD, primary attention is paid to the question of how to reverse the marginalization of countries and to facilitate their integration into the world economy. Such countries have been unable

to diversify their economies to any significant extent over the past two decades and thus continue to experience very high commodity dependence. The declining importance of primary commodities in world trade, combined with the loss of market share in world primary-commodity markets suffered by those countries, puts them in a weak position to benefit from globalization. The *Trade and Development Report, 1998*¹ and *The Least Developed Countries: 1998 Report*² deal with these issues, which are also to be addressed by the Trade and Development Board at its forty-fifth session, in October 1998.

8. As noted in agreed conclusions 1997/1, "the overall decline in official development assistance (ODA) is a cause for serious concern". Although Governments agreed, in particular, on the importance of reversing this decline and achieving internationally agreed ODA targets as soon as possible, the decline in the flow of ODA has continued. That is, the total ODA of the countries members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) fell in 1997 to \$47.6 billion, or 0.22 per cent of the gross national product (GNP) of the donor countries, the lowest level of that indicator since the United Nations adopted its ODA target of 0.7 per cent of the GNP of donor countries (some of the decline reflected changes in exchange rates against the dollar and some reflected a change in country classification; but even without these factors, ODA declined by more than 3 per cent, according to OECD).

9. As discussed in the report of the Secretary-General on the financing of development, including net transfers of resources between developing countries and developed countries (A/53/228), donors are making important efforts to better manage their ODA programmes and raise the effectiveness of their assistance, although this does not compensate for the decline in ODA flows. In addition, as noted in the report, multilateral financial institutions are increasingly compensating for the sharp limitations on concessional flows from donors by drawing on the earnings of the institutions on their non-concessional lending to middle-income countries. This is a coping mechanism, not a solution to the problem of how to strengthen the flow of ODA.

10. In agreed conclusions 1997/1, the Economic and Social Council noted that "one of the specific obstacles over the past decade to the development efforts of many developing countries, in particular those in Africa and the least developed countries, has been the heavy burden of external debt servicing". At its fifty-second session, the General Assembly adopted resolution 52/185 on enhancing international cooperation towards a durable solution to the

external debt problem of developing countries". Under agenda item 91 (d), the General Assembly will review the report of the Secretary-General, prepared in response to that resolution. The report analyses recent trends in the external debt of developing countries, as well as current approaches to the debt problems of developing countries, and draws some international policy conclusions with a view to making constructive proposals for improvement in current debt workout strategies. The report focuses on the debt problems of two particular groups of countries: the heavily indebted poor countries and the middle-income countries in Asia and Latin America that have been affected by recent financial crises.

11. In the context of its discussions on volatility and vulnerability, the Economic and Social Council agreed that "the increased integration of the world economy has the potential for increased volatility, particularly in international financial markets". In agreed conclusions 1997/1, the Council touched on issues that were considered at its high-level meeting with the Bretton Woods institutions in April 1998 (see para. 6 above). The General Assembly, at its present session, will also address these matters in the context of the report of the Secretary-General requested under resolution 52/180 (A/53/398). That report contains a set of policy conclusions that emerged from joint Secretariat deliberations in an expert group meeting that took place in New York in July 1998. In addition, as also requested by the Assembly in resolution 52/180, the *World Economic and Social Survey, 1998*³ contains an analysis of current trends in global financial flows as well as recommendations on ways and means to address the volatility of those flows. The *Trade and Development Report, 1998*,¹ as also requested by the Assembly, contains a discussion relevant to this subject. In this context, the Trade and Development Board's deliberations on interdependence at its forty-fifth session (October 1998) will be reported to the General Assembly under agenda item 91 (a).

12. In agreed conclusions 1997/1, the Economic and Social Council noted that "most developing countries have liberalized their FDI [foreign direct investment] alongside their trade regimes". UNCTAD continues to study and report on the implications of trends towards greater liberalization in investment flows. The *World Investment Report, 1998*⁴ will discuss developments in this regard, with a focus on changes in the regulatory frameworks for investment. UNCTAD also continues to assist developing countries (especially those in Africa, which were the subject of particular attention in the Council) and countries with economies in transition in attracting foreign investment. In the context of the increasing relationship between investment

and trade and the intensification of international discussions on this matter, UNCTAD is developing its work programme of technical studies, regional symposiums and joint UNCTAD/WTO seminars for Geneva-based delegates designed to help developing countries and transition economies strengthen their positions for participation in international discussions and negotiations on FDI.

13. In its agreed conclusions 1997/1, the Council stated that "an open, rule-based, equitable, secure, non-discriminatory, transparent and predictable multilateral trading system is a key element in fostering an enabling environment for development and is also essential for deepening the flow of technology and information around the world". In addition, it noted that "commodity exports continue to play a key role in the economies of many developing countries".

14. The Council, at its substantive session of 1998, devoted its high-level segment to issues of market access. On that occasion, the Council adopted a ministerial communiqué (A/53/3, chap. IV, para. 5) that included an assessment of the implications, opportunities and challenges, in particular for developing countries and the least developed among them, since the conclusions of the Uruguay Round of multilateral trade negotiations. In accordance with paragraph 36 of Assembly resolution 52/182, information on developments in the multilateral trading system, including information relating to WTO, will be included in the oral report of the Secretary-General under agenda item 91 (a).

15. Under agenda item 91 (c), the General Assembly will review the world commodity situation, in the light of the report prepared by UNCTAD in response to General Assembly resolution 51/169 (A/53/319, annex). The report examines recent developments in the commodity economy, including changes in the international environment that may influence its prospects, and considers a number of policy measures that could be taken by the developing countries with associated international cooperation and support.

Conclusion

16. Agreed conclusions 1997/1 of the Economic and Social Council were adopted before the Asian financial crisis had taken hold. As subsequent events have demonstrated, the agreed conclusions turned out to be highly relevant.

17. As the present note amply testifies, a number of events, report and actions have been undertaken over the past year by the United Nations which have had a direct bearing on the implementation of agreed conclusions 1997/1 of the Council. In this context, issues relating to the rapidly increasing economic interdependence of countries that has

characterized the globalization phenomenon over the past decade, particularly the interrelated trade, investment, technology and sustainable development issues, have been under continuous consideration by the Trade and Development Board, including during its consideration of preparations for the tenth session of UNCTAD. Further actions, both under the auspices of the General Assembly and of the Council are to be expected, most notably the working group of the General Assembly on the possible convening of the international conference on the financing of development as well as the possible convening of a special meeting of the Council proximate to the spring meetings of IMF and the World Bank. It is to be expected that these gatherings, as well as the current debate in the General Assembly, will provide further impetus to the follow-up of agreed conclusions 1997/1 of the Council.

Notes

¹ United Nations publication, Sales No. E.98 II.D.6.

² United Nations publication, forthcoming.

³ United Nations publication, Sales No. E.98 II.C.1.

⁴ United Nations publication, forthcoming.